BUSINESS STYLE ACCOUNTING FOR THE CORE OF GOVERNMENT: ACADEMIC DEBATES AND INTERNATIONAL EXPERIENCE

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Introduction

The period since the late 1980s has been described as the era of New Public Management (NPM) wherein making government's work more like business was considered international best practice (Hood 1991; Pollitt & Bouckaert 2000). Alongside a range of public management reforms, such as contracting out and agency reform, business style accrual accounting was advocated as a desirable way to report upon central government finances (Christensen 2007; Olson, Guthrie & Humphrey 1998; Heald 2003). First applied to core government services in the Anglo Saxon countries of New Zealand and Australia, business style accrual accounting has since been incorporated into both International Financial Reporting Standards and the international Public Sector Accounting Standards (IPSAS) (Robb & Newberry 2007:1; IPSAS board 2007). These standards, together with admonitions from the International Federation of Accountants (IFAC), national professional accounting associations, the OECD, World Bank and IMF, have created pressures on governments around the world to follow (OECD 2002). There is clearly, in some circles, a zealous belief that business accounting standards can provide a suitable universal standard to which the public sector should comply (see Christensen 2007).

In this report a brief overview of debates about, and experience with, the application of business style accrual accounting in central government is presented. The focus here is upon the application of business style accrual accounting to core government services. The term business style accrual accounting is adopted in recognition that the standards being promulgated by the IPSAS, and accrual accounting proponents more generally, draw from business practices. There has to date been few attempts, even from within the accounting profession, to develop existing government accounting systems by recognizing and departing from specifically public sector characteristics and objectives (See Pallot 1992; American Government Accounting Standards Board (GASB) 2009 for exceptions). Furthermore, the focus on core government services limits the present analysis to policy making and delivery services *within* the departmental sphere. This recognizes that the adoption of business style accruals to government organizations *outside* of departments has a more established history (Christeans & Rommel 2008; Anthony 1978). While there have been some earlier experiments with applying accruals in core government services, as well as conceptual debates about the applicability of business accounting standards to such services, the recent international campaign is novel (Monson 2002; Anthony 1978). This has the consequence that empirical studies of the effects of applying accrual accounting to core government services are still preliminary and come primarily from pioneering countries such as New Zealand and Australia.

This report is divided into three main sections. The first section of the report is conceptual. It describes accounting systems in general and the underlying principles of the cash based and accrual systems in particular. The second section of the report focuses upon debates about applying business style accrual accounting to core of government entities. It draws primarily from the literature in Australia and New Zealand and describes the arguments of those for and against applying business style accrual accounting to central government. Finally, the third section of the report focuses upon empirical experience with accrual accounting in central government. More specifically it describes studies examining the transparency and costs of accrual systems, as well as studies describing both managers and parliamentarians experience and use of accrual information.

A conceptual analysis of accounting systems

Accounting systems are information systems which organize and calculate the financial transactions in an organization. They entail using pre-defined categories to calculate and ascribe financial values to what organizations do and have. As many academic scholars have noted, it is naïve to assume that accounting systems are merely neutral technical systems reflecting the financial reality of organizations (Hines 1988; Pallot 1992; Guthrie 1998; Newberry & Pallot 2005; Robb & Newberry 2007). Rather, the categories recognized within accounting systems have both a social and normative character. They inform how the financial status of an organization is represented and create a social reality through the way they calculate, recognize, attribute and organize (financial) values. This in turn is likely to influence how organizations are evaluated, and may effect the political and management decisions made about them. Furthermore, the purposes for which accounting systems have been developed inform the categories that the systems recognize. They, together with the way accounting systems are used, attribute a normative character to accounting systems.

Recognizing the social and normative nature of accounting systems has consequences for how debates about the advantages and disadvantages of accounting systems are interpreted. Firstly, it signals that different types of accounting traditions represent just one potential way to organize financial information. As such there will always be limits to what a given accounting system can bring into view and different systems will have different strengths and vulnerabilities. Secondly, given the normative character of accounting systems, any decision to adopt a particular arrangement should be conscious of the values that have informed that system. These values can be identified by examining the origins of different systems and their purposes, the categories they recognize, as well as the actors that have promoted and developed them. Thirdly, the examination of advantages and disadvantages of any accounting system should then also be considered in light of the governing principles of an organization, what they wish to achieve, and the users of financial reports. Ideally the accounting system adopted will reflect and facilitate the attainment of these principles. Finally, although there are certain values that can be associated with the origins of particular accounting systems, the values promoted by any such technology will also always depend upon how the system is used and given content in particular contexts (see Carlin 2005:329).

Accrual versus cash based accounting systems

Accrual and cash based accounting systems represent two distinct traditions of accounting, each with their own normative underpinnings. In recent years they have been the central, often competing figures in debates about the most appropriate accounting system for the core of central government. It should be noted that, to some extent, the presentation of both systems in the debates are ideal types rather than the more complex reality. This is because both systems are capable of different kinds of variations including cash based accounting, a modified cash system of accounting, modified accrual system of accounting, and a full accrual accounting system. Furthermore, there may also be variations in the forums to which accrual accounting is applied. For example it may only be used for accrual financial reporting of departments to the parliament, and it can also be applied to the national budget. In the Australian Public Sector, the accounting profession and various governments promoted a vision of accrual accounting which included: accrual financial reporting, accrual management systems, whole of government reporting and accrual based budgeting (Guthrie 1998:2). For the purpose of clarity, it is only the ideal types of cash based and accrual accounting that is discussed here. Furthermore, the focus is primarily upon the use of accrual financial reporting.

Cash based accounting has been the traditional way in which the financial accounts of central governments are recorded and administered. This system is characterized by recording financial transactions on the date that cash is received or paid out. It is designed to provide information about cash balances in the current period and focuses upon the amount of cash that was actually paid out in a given period. The cash based system is a single entry book keeping system which generally makes the interpretation of cash accounts, and records of what has been spent, accessible to a wide public. It is an accounting regime which has its origins in Cameralism, a body of European thought regarded as the first attempt to systematize the study of public management, including fiscal management (Hood 2000:83, Hood & Jackson 1991; see also Monsen 2002). The **underlying principle** of the cash based system, as developed for and within government, was democratic control over the use of funds (Pallot 1992:39). It was to ensure parliaments could protect and guarantee correct use of public finance, which is primarily raised through taxation. As Newberry and others have noted "this power of control is crucial because debt incurred by a government is guaranteed in full by the people of the country through the government's coercive power to tax" (Robb & Newberry: 2007:3; Pallot 2002). According to the Cameralist's the cash based system was the most appropriate tool for parliament's to assess whether the expenditure of government organizations complied to budgetary appropriations (Monsen 2002:44, see also Pallot 1992). This was because it also allowed for checking whether funds restricted for certain purposes were also spent accordingly. Since the cash based system has been primarily concerned with current expenditure, the financial valuation of assets and liabilities *over time* were not recognized or incorporated into the design of the system. Their financial value appears in the expenditure column as the total amount spent at the time of purchase.

By contrast, full accrual accounting originated and developed within business organizations. The **underlying principle** of this system was to facilitate and maximise profit making. Accrual accounting has been described as accounting in the service of managers, as well as for owners and lenders who require information to divest of funds quickly (Chan 2003; Ives, Johnson, Razek & Hosch 2009:4). A key difference from the cameral or cash based system is the period of time in which cash transactions are recognized. Accrual systems record revenues and expenses in the period in which they are earned or incurred – that is used- rather than when cash is actually received or paid (Guthrie 1998:5). Consequently, the accrual system also recognizes assets and liabilities and reports them in a balance sheet. Depreciation on such assets is also an essential feature of business style accrual accounting. Its inclusion in accrual financial reporting is based on the idea that assets contribute to production beyond the point of purchase. The inclusion and calculation of depreciation in accrual accounting has the consequence that this system makes numerous adjustments and goes beyond merely recording the transactions. Following from experience in business enterprises, the recording of revenues and depreciation in accrual accounts assumes that the resources attributed to these things are directly related to operating activities (see Anthony 1978:136; Chan 2003; Christeans & Rommel 2008). As will be discussed further below, this is not always the case for core government services.

Another feature of the accrual system which is distinctive from the cash based system is that it is a double entry system, and involves at least four key reports. These reports include the profit and loss statement or operating statement, the balance sheet and cash flow statement, as well as a statement of accounting policies and explanatory notes. The operating statement includes all of the revenue for the provision of goods and services in a given period, as well as the costs for producing those goods. These costs would include the depreciation cost of assets. It is from the operating statement that level of profit is calculated. The balance sheet is a statement which shows the things of value that an organization owns (the assets), as well as the sources of finance used to buy them (Walker 2009:44). It is for this reason that the balance sheet is meant to balance. The asset amounts in the balance sheet are calculated depending upon the yearly rate of depreciation. Furthermore liabilities are deducted from the value of assets. In contrast to the operating statement which covers the accounting period, the balance sheet records the last day of the financial year. Therefore its significance requires following balance sheets over time. Finally, the cash flow statement enables users of accounts to assess the amounts, timing and uncertainty of the organization's cash flow. It depicts cash flows from operating activities, from investing activities, and from financing activities (Walker 2009:99). It would include cash received or paid for sales or purchases of assets, as well as cash outflows for repayment of loans. It does not report those flows directly however. The cash flow statement is derived from the accrual based statements. This is only a very brief description of the accrual system, but it illustrates the complexity system wherein items reported in one of the three statements flow into other statements.

Dissecting debates about applying accrual accounting to core government tasks

Against the background of the nature of accounting systems generally, and the cash and accrual accounting traditions more specifically, it is now possible to examine the debates about applying business style accrual accounting to core government services. Remarkably, even though accruals have spread to more government contexts than in earlier periods, the debate remains inconclusive. Even in contexts such as Australia and New Zealand, where business style accrual accounting and budgeting for core government services have been used (in some Australian states) for almost 20 years, there remain fervent proponents both advocating and dismissing the advantages of accruals (Christensen 2007). In evaluating these debates it is useful to note that there are different types and degrees of conceptual and empirical justifications that are used to support the different standpoints (Newberry 2001; Christensen 2007). For example at a conceptual level distinctions can be found in the degree to which proponents and opponents recognize the normative character of accounting systems. Furthermore, there are differences in the extent to which contributors to the debate recognize the distinctive way in which accruals have actually been applied in central government. There are also patterns in the identity of the actors pushing for particular positions. Invariably it is practitioners from governments or the accounting profession who are avid supporters of business style accrual accounting for core government tasks, while academics tend to be more nuanced and more often opposed to existing developments (Christensen 2007).

There are three broad positions in the debate that can be identified. Firstly, there are proponents of business style accrual accounting for core government tasks (see Das 2008; McGregor 1999; Micallef & Pierson 1997; Mellor 1996). These contributors argue that accrual accounting is technically superior to cash based accounting. They state that it facilitates several benefits such as transparency and efficiency (Das 2008; Guthrie 1998). Secondly, there are opponents of accrual accounting for core government tasks. While those taking this position may recognize the usefulness of accrual information generally, they reject its applicability to the public sector, and more specifically to core government tasks. This is because of fundamental differences between the nature of goods produced in the public sector, as well as the relationship between production of core government goods and their funding (see Barton 1999; 2005; Carnegie & Wolnizer 1995). Finally, there is a third position in the debate which also rejects the adoption of *business style* accrual accounting in the public sector. This position is distinguished by its rejection of the usefulness of accruals to the public sector because the current conceptual framework of business style accrual accounting takes on different meanings when applied to the public sector (Newberry 2001). Each of these positions and their proponents are described in more detail in the following paragraphs.

Proponents of accrual accounting for core government tasks

Recent proponents of business style accrual accounting in central government argue this accounting system as a technical, sector neutral instrument. They give minor attention to the origins and development of accrual accounting in the business sector, nor do they see the fit between private sector accounting goals and standards with public sector goals as a problem (see Das 2008; McGregor 1999; Hone 1997). For example both the IPSASB (International Public Sector Accounting Standards Board) and Australian accounting standard setters assume that the not for profit aspect of core government services can be resolved by adjusting the wording of accrual standards, while leaving the technical aspects of the system in place. This is apparent from definitions of assets which for profit seeking entities are defined as providing "goods and services for exchange with the objective of generating net cash inflows" while for non-profit organizations are defined as "providing goods and services in accordance with the entities' objectives" (see Newberry 2001:2-3). Some similarities are created through wording without querying how these arrangements work in practice in the different contexts of the public and private sectors. In Australia and New Zealand proponents also argued that applying similar standards in accounting systems enables the performance of public and private sectors to be compared.

Leaving these matters aside, proponents of accrual accounting for core government tasks begin by showing the cost information that the accrual system produces (Das 2006; Rowles 2003; Mellor 1996). The availability of this information is embedded in positive consequences that follow from the introduction of accrual accounting. The most frequently consequences are greater transparency, the promotion of efficiency and cost consciousness, greater accountability for resources used, and greater accountability regarding the effects of today's decisions on future generations (see Guthrie 1998). Also, proponents argue that accrual accounting enables governments to provide a complete picture of their financial position. This is because total costs and unit costs, as opposed to expenditure, can be calculated and consolidated (Das 2008). The primary rationale behind this is the inclusion of the value of assets and liabilities (over time) into accrual financial reporting and valuation of government activities. There is however little analysis of when it is useful to include such values in public sector accounts. For example should such market values of assets be included in the accounting records of an organization even when the good concerned cannot or will not be sold.

It should be added, there are strict positions among proponents with regards to this inclusion of asset values, even when market or financial values are difficult to attribute (see Micallef & Pierson

1997). This is because it is claimed that not attributing financial value to all liabilities and assets would not enable a complete financial picture of an entity. Another related argument for valuing all assets and liabilities is the provision of information to inform any decision to replace or divert financial commitments from one activity to another (Rowles 2003). This argument tends to reveal the theoretical underpinnings of accrual accounting in business economics wherein notions of property rights, scarcity and opportunity costs are central (see also Pallot 1992). In part the strength of these arguments depends upon how accurately costs can be measured, as well as the degree to which core government services comply with the theoretical assumptions of business economics. This would include the assumption that assets could or would be just sold, which is not always the case for public sector assets.

The actors in favour of accruals in core of government were mostly government officials, practising accountants and/or representatives from (national and or international) professional accounting organizations (Christensen 2007). Indeed, key actors from both countries have since attained important roles in international institutions promoting and setting standards for the adoption of accruals in the public sector (see Robb & Newberry 2007). They also appeared in public debate in the initial period wherein accruals were being considered and adopted in Australia and New Zealand (Christensen 2007). There are two related reasons why both the timing and sources of arguments for accrual accounting are significant in assessing their validity. Firstly, the period in which these arguments emerged, and in Australia, NZ and UK were acted upon, was the era of New Public Management. It has been characterized as ideologically committed to making the public sector work more like a business. Anglo-Saxon countries such as Australia, New Zealand and the UK were shown to be the most fervent adherents of NPM ideology and neo-liberalism more generally (see Bouckaert & Pollitt 2000). In his historical description of the adoption of accrual accounting in Australia Christensen observed "a zealous belief that bringing public sector accounting into line with private sector accounting was an inherently righteous objective" (Christensen 2005:447). At that time there was little actual empirical evidence that accrual accounting would bring about the claimed benefits.

Secondly, the identity of proponents of accruals in both Australia and New Zealand would indicate that they came from the accounting profession or were consultants. As Christensen notes "(T)o date the literature has yet to reveal a jurisdiction that has moved to accrual accounting without the aid of consultants" (Christensen 2005:448; see also Pallot 1998; Baker & Rennie 2006). Yet these actors had little experience with public sector contexts and problems

(Christensen 2005). Furthermore, there were some public officials acting from within financial units of the administration to promote accrual accounting in a period when there was uncertainty about existing public sector practices (Christensen 2005; Robb & Newberry 2007). Together the combination of the public management ideology, the norms of the accounting profession, and their interests created conditions in which the claimed benefits of accrual accounting became logical. As Weeks (1990:25), an Australian accountant noted, "accrual accounting presents opportunities for our profession to assume a role in the public sector that complements that currently performed in the private sector".

Opponents of accrual accounting in the core of government

There are also opponents and critics of the adoption of business style accrual accounting in the core of central government. These contributors are predominantly academics and their arguments depart from the recognition of the distinctive goals, goods and services, and operating environment of the public sector (Barton 1999; 2002; 2005; see also GASB 2009; Pallot 2002; Newberry 2001, 2002; Monson 2002). They reject the notion that an accounting system designed for the private sector should be made the standard to which a public sector accounting system should comply. While the articulation of the opposition to business style accrual accounting has grown in recent years, many of the concerns expressed are not entirely new. For example historical work from previous centuries has documented earlier attempts and problems with introducing accruals in central government organizations (Monsen 2002). Furthermore, some of the key conceptual issues and problems for creating a common framework for non-business organizations were already mapped out in the 1970s (Newberry 2001; Anthony 1978).

Those who argue that accruals are inappropriate for the public sector generally draw from economic conceptualizations of the differences between private and public sector goods, and from private sector assumptions of property rights (Barton 1999; 2005; Pallot 1992). Among the more novel contributions from opponents in recent years, are the arguments that have sought to develop accounting concepts for public sector assets (Pallot 1992), and those that have illustrated problems which arise when accrual concepts are applied to the public sector (Newberry 2002; Barton 2004; Walker & Carnegie 1995). Some of these opponents adopt a second level of critique to business style accruals in core government. More specifically, they are not opposed to the adoption of accruals per se but rather the way in which they have been applied in the public sector. These arguments highlight the different meanings and interpretations of accrual concepts which occur as a consequence of applying business style accrual accounting to the public sector (Newberry 2001, 2002). They draw from experiences and applications of accrual accounting in Australia and New Zealand. The arguments of opponents who reject business style accruals because the public sector is fundamentally different to the private sector are first described. This is then followed by descriptions of the arguments of opponents who reject accruals because they are applied differently in the public sector than in the private sector.

A first group of opponents reject the use of accrual accounting in the core of government because the public sector is fundamentally different to the private sector. It is argued that business style accrual accounting is inappropriate because many of the financial relationships it depicts do not apply to the public sector environment. These arguments often depart from the objectives for producing public sector goods and how they are different to the private sector. They also emphasize that the types of goods produced in the core government sector are generally of a different nature to the private sector (see Barton 1999, 2005; Stiglitz 1988). As already noted, there is no profit motive which drives the decision making about the production of goods and services in the core public sector. Rather, the objective of expenditure in the public sector is to promote collective well being – which may include the economic interests of the nation, but also the social well being of inhabitants or groups of inhabitants. The different objectives of government compared to businesses means that the performance of government cannot be assessed simply in terms of profitability or the resultant financial position of the government (Barton 1999:26). Much of the recent orthodoxy promoting accrual accounting in government seems to ignore that as with a cash system, other types of performance information beyond accruals, are necessary to understand how well governments are achieving their objectives. Like cash accounting, accrual accounting does not produce statements of outcomes, and the outputs it identifies are merely the volume of goods and services produced.

Another fundamental difference used to argue against business style accrual accounting concerns the way in which the production of public goods and services are financed (Barton 2005; Anthony 1978; Christieans & Rommel 2008). In the private sector it is market prices, and eventual revenue which are used to fund the volume of production and inform decisions to maximise profit. By contrast, the production of public sector goods is financed primarily through taxation and the political decision to commit funds to certain policy areas. This means there is no direct relationship between which or how many goods and services are produced in the public sector and the receipts to produce those goods (see Barton 2004:284; Anthony 1978). Yet business style accrual accounting presents the relationship between production and revenues, as if there was a direct relationship between the amount of goods and services produced and the receipts - called revenue in accrual accounting systems - to produce those goods. Such a system encourages a focus upon the volume of production since it is the driving force of expenses in a business, yet this is not the case in the public sector. Furthermore, opponents of accruals reject that the unit costs of outputs are presented as a price. They claim "the notion of a selling price for the services provided to the government is a complete fiction in the absence of an open market" (Barton 2004:290).

Thirdly, opponents of accrual accounting point to the distinctive nature of public goods and services, and particularly the nature of assets used to produce those goods. When launching this argument, opponents often draw from economic theories which describe conditions of market failure as a consequence of non-rival, non-excludable goods, or because of externalities (Barton 1999, 2005). These theories indicate that attributing financial value to such goods as systems of law, order and defence, cultural heritage, or roads and parklands are problematic. This is because there are barriers to supplying them in private sector markets, and obtaining a price for them, but also because many of the benefits they provide are not of a financial nature (Barton 1999:25). The same arguments apply to the role and value of some public sector assets which contribute to the production of public goods and services but cannot be easily ascribed a financial value. Moreover, there are generally restrictions on such assets with respect to selling them or converting how they are used (Barton 1999:26; Carnegie and Wolnizer 1997:44). This makes the decision to attribute financial values to these goods within a balance sheet complicated and dependent upon those setting accounting standards. Even proponents of business style accounting have conceded "there is no way of directly validating the accuracy of valuations implied in the political market for publicly provided goods and services" (Hone 1997; See also Carnegie & Wolnizer 1997; Pallot 1992:42-43).

A second group of opponents reject business style accrual accounting because of the way it has been applied to the public sector and the way it conceals significant differences in interpretation of accounting concepts (Newberry 2001; Robb & Newberry 2007). This is a somewhat different position than rejecting accruals because public sector goods and services are distinctive. The argument is that while proponents of business style accrual accounting assert that such a system can be applied in more or less the same way in the public sector, the practice is that the conceptual framework is interpreted differently in respectively the private and public sector

(Newberry 2001). It is not simply that public sector goods and services maybe in some way different, but rather business style accrual concepts have come to mean different things when applied to the public sector. Indeed, Newberry argued that "some of the accounting developments, as applied to the public sector are inconsistent with business sector practices and in some cases would outrage the business sector if any attempt were made to extend them to that sector" (2001:3). She points to the application of both definitions of assets and liabilities to the New Zealand and Australian public sectors and writes the consequence is "that some items that would not qualify as assets in the business sector would quality as assets in the public sector", and that they are even "attributed different reported book values" (Newberry 2001:3).

Some examples of different interpretations of accrual concepts in the public sector have included the reporting of obsolete defence force equipment at depreciated replacement cost, or inconsistent rules about the reporting, and the consequences of reported surpluses and deficits (Newberry 2001; Newberry 2002:322). Studies in both New Zealand and Australia have shown that accruals have been applied in such a way as to over-value the costs of public sector goods, as well as in the case New Zealand to bring about the depletion of public sector assets (Newberry 2002; Newberry & Pallot 2005; Barton 2004). This was a consequence of the valuation (and continually re-valuation) of assets and the imposition of depreciation and capital charges on those assets. It occurred with little or no oversight from parliament. Other misinterpretations of business style accrual accounting in the public sector have included the reporting of the biggest profit of any business in Australia by the Department of Defence (Barton 2004). This misrepresentation of accounts became possible notwithstanding that the financial statements had fully complied with professional accounting standards. Significantly, opponents adopting this third position in debates about accruals in the public sector draw extensively from empirical experience. Through identifying the way in which accruals have been applied in both Australia and New Zealand they illustrate how these systems facilitated neo-liberal ideologies and supported privatization policies. For example the over-valuing of the costs of public sector goods gave legitimacy to contracting out to private sector alternatives that seemed cheaper (see Newberry & Pallot 2002; Elwood & Newberry 2006).

Empirical findings about accrual accounting in the core of government

Though experience with business style accrual accounting in central government has continued for almost 20 years in New Zealand and some Australian states, academic research into the costs and effects of their accrual systems remain erratic. This is in part a consequence of the focus upon the normative character and principles characterizing accrual accounting, as well as the difficulties of obtaining hard evidence about the impact of such reforms (Christensen 2009; Pallot 1991). Accrual accounting has changed both what and how government activities and resources are measured and this makes comparison with past systems and behaviour complicated. Furthermore, it has generally been introduced as part of a package of reforms, making the attribution of effects even more complicated. In the following paragraphs a brief overview of some empirical studies are presented. These include further studies analyzing the transparency and costs of accrual systems (Carlin 2006), the impact they have had upon management decision making (Christensen 2009), and the accessibility and use of such information for and by other users, including parliamentarians (Sterk & Bouckaert; MacDonald 2009).

In evaluating claims about the greater transparency of accrual systems, Carlin (2006) examined financial reporting in the Accrual Outcome Based Budget of Victoria – a state of Australia. He analyzed departmental reporting in the budget from the period of 1998/99 until 2001/2 and found extraordinary variation in the definitions of output groups and output products over time. He writes that for each department "the rate of change in output groups…was equivalent to an organization replacing its entire budgeting structure over the course of a two year cycle" (Carlin 2006:14). Furthermore the rate of change increased rather than decreased over time suggesting it was not merely a consequence of a new system. Experiences with continual change in the unit of measurements for product groups, and thereby the unit costs attributed to them, have been noted elsewhere (see Ministerie van Financien 1997; MacDonald 2009:7). They decrease rather than increase the possibility to assess the financial performance of organizations over time. Carlin associates this continually change with high maintenance costs such as the considerable resources devoted to administering the budget (Carlin 2006:14). Given the lack of greater transparency or insight into cost, as well as increased costs in maintaining the system, he queries whether there have been any benefits that exceed the initial investment to set up the accrual system (Carlin 2006:14, see also note 18). In Australia public estimates of initial investments for software and training alone have been AUD 35 million (Carlin 2006: note 18). Together with findings about resource depletion of public sector assets and the need to employ more accounting professionals (Newberry 2002; Connolly & Hyndman 2006), the costs of establishing and maintaining the accrual system is undoubtedly greater than the official estimates made to date.

There have been somewhat more studies into how public managers use the information from the accrual system. Many of these draw conclusions from interviews with operational managers and departmental actors responsible for overseeing the accrual system (see Christensen 2009; Thompson 2001; Connolly & Hyndman 2006; Ridder, Bruns & Spier 2006). There have also been quantitative studies about use of accrual information based upon surveys (Paulsson 2006). Though these studies indicate some positive findings such as better access to financial information about assets and liabilities, they generally highlight the lack of relevance that operational managers attach to accrual information and their day to day work (Christensen 2009; Connolly & Hyndman 2006). Following from Luder and Jones (2003:33) in their comprehensive study of nine European countries, "accrual accounting does increase the amount of accounting information, but there is serious doubt about the way in which the information is used" (quoted in Christieans & Rommel 2008). Operational managers indicated either that the information was too complex or that it was not the basis from which their decisions were made (Connolly & Hyndman 2006:280; Christensen 2009:12; Thompson 2006). This is exacerbated by restrictions on what operational managers can do with assets and liabilities (eg. rules about selling them) and by the calculation of this information in other (central or departmental) organizational units (Christensen 2009).

Paulsson's (2006) quantitative study in Sweden presented a slight exception to these findings since he argued that accruals and particularly unit costs were used as a general source of information for operational managers. However, he does not identify specific examples of how managers use this information and concedes that "it is difficult to link this use to individual phases in the budget process or to specific decisions" (Paulsson 2006:60). On the other hand, Australian studies indicate that accrual information is of most interest to accounting/financial professionals within (non operational) central offices (Christensen 2009). These are the actors responsible for calculating asset and liability information. Indeed, Christensen (2009) found that there is an organizational separation between information acquisition about assets and liabilities, and those who are meant to use this information. It is professionals outside of the operational environments who are collecting and calculating the information about assets in the core government organizations. This has the consequence that such information has little impact upon the social processes within operational environments and therefore is attributed little significance by operational managers (Christensen 2009:11). Christensen concludes that the few confirmed benefits of accruals, such as operational manager's quick access to more financial information, are actually a consequence of information technology rather than accruals themselves (Christensen 2009:14).

Finally, there is some evidence to indicate that accrual information has not been particularly accessible to parliamentarians (Sterk & Bouckaert 2006; Australian Senate Finance and Public Administration Committee 2007; McDonald 2009). Furthermore, it is unclear as to what extent parliamentarians actually use accrual and performance information more generally (Johnson & Talbot 2007; Brunnson 1998, 2002). It should be added that the use of performance and accrual information by parliamentarians is perhaps the most under-studied aspect of accounting and performance reporting reforms. Recent public statements by government bodies in both the UK and Australia suggest that parliamentarians have been confused by the new ways of reporting the financial performance of core government organizations (McDonald 2009). For example Wynne (2008:122) cites the UK Treasury as reporting that the "current arrangements can cause confusion and inefficiency and make effective parliamentary scrutiny of public spending more difficult". Similarly Australian parliamentarians have criticized the output information in the Portfolio Budget Statements (PBS) and annual reports because it difficult to get a clear view of the agencies' contributions to the outputs (Sterk & Bouckaert 2006:6; McDonald 2009). As a recent report presented to the OECD notes of the Australian experience "outcomes are very general and vague and couched in terms of aspiration rather than purposes for which money is appropriated" (McDonald 2009:6).

Moreover a former Australian Auditor General commented that "Parliament lost control of Commonwealth financial matters when it agreed to a number of fundamental changes in the reform of the Commonwealth finances" (quoted in MacDonald 2009). This is because parliamentarians do not always know where to begin their questioning about expenditure on the basis of the outcome information reported in the Australian accrual system. These problems of financial accountability to parliament have been exacerbated in both Australia and New Zealand by the shortened amount of time available for debating and questioning these reports (MacDonald 2009:8; Newberry 2002). As a consequence, there have recently been a range of changes made to the reporting format of accruals in Australia and the budget documentation (MacDonald 2009). Furthermore, the Department of the Senate has begun to offer training programs for public officials involved in the estimates process. All of these initiatives indicate that the shift to accrual accounting has presented huge informational demands to parliamentarians.

Conclusion

This report has sought to provide an overview of existing debates regarding the application of business style accrual accounting to core government services. It has also presented some findings from international experience with accrual accounting in the public sector, and primarily from experiences in the pioneering countries of Australia and New Zealand. While clearly there is still much empirical research to be conducted, there seems to be little doubt among academic commentators that business style accrual accounting has *not* satisfied the ambitious expectations of proponents (see Carlin 2006; OECD & World Bank 2004; Newberry & Pallot 2005; Christensen 2009). Moreover, recent developments in both Australia and New Zealand suggest that their initial blue-prints for accrual accounting are being seriously questioned and adjusted. In June 2009 a report by the Auditor General of New Zealand expressed disappointment with the quality of the financial reporting standards that have been applied (Office of the Auditor General 2009). These standards had drawn from International Financial Reporting Standards as put in place by the International Accounting Standards Board. Moreover the Auditor General recognized the lack of consideration for public sector experience and users in the (profit orientated) standards that had been used to date (Officer of the Auditor General 2009:5-7). Similarly, the Secretary of the Australian Senate Finance and Public Administration Committee recently prepared a report for the OECD in which she describes various deficiencies in the use of accrual information for parliamentarians. Indeed following from the election of the Australian Labour Party in 2007, the new Minister of Finance instigated a review of existing financial reporting and budgetary practices. Entitled *Operation Sunlight – Enhancing Budgetary Transparency*, the mere instigation of this review would indicate that after more than 10 years of accruals in central government the Australian system has not provided clear insights into costs of government goods and services.

More generally, the review of debates and experiences in this report warrant caution in considerations to adopt business style accrual accounting across central government. This is not only because existing international standards have drawn directly from business experiences, but also because their application to the public sector has been driven by an uncritical belief in the superiority of business practices. In Anglo-Saxon countries this belief is illustrated by the willingness to adopt accrual accounting with little evidence of its effects. With the collapse of Enron and public discussion about the causes of the recent financial crisis, many questions are being raised about the professional norms that have governed financial and business practices in the last years. This extends to the role of the accounting profession, their oversight of book-keeping, and their methodologies of valuation (see G20 2009). For the public sector such questioning presents opportunities, not least the possibility to develop existing public sector accounting systems in ways which recognize the distinctive objectives and nature of core government goods and services (see Pallot 1992).

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